

## Message Text

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INFO OCT-01 ARA-06 EUR-12 EA-07 IO-11 ISO-00 STR-04 COME-00

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FRB-03 H-02 INR-07 INT-05 L-03 NSAE-00 NSC-05 PA-01

AID-05 CIEP-01 SS-15 ITC-01 USIA-06 PRS-01 SP-02

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USDEL MTN GENEVA

USMISSION EC BRUSSELS

INFO AMEMBASSY BRASILIA PRIORITY

AMEMBASSY TOKYO

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H PASS CODEL

E.O. 11652: GDS

TAGS: ETRD

SUBJECT: G-18 DISCUSSION OF BRAZILIAN PROPOSAL  
ON REFORM

1. AS A RESULT OF WASHINGTON DISCUSSION WITH LONG AND  
PATTERSON WE ARE CONVINCED THAT THE BRAZILIAN PROPOSAL  
FOR AN MTN REFORM GROUP IS LIKELY TO BE A MAJOR ISSUE  
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FOR DISCUSSION AT THE FEBRUARY 24-25 G-18 MEETING.

2. LONG AND PATTERSON INDICATE THAT AS THINGS NOW STAND AN MTN GROUP ON REFORM PURSUANT TO THE BRAZILIAN PROPOSAL IS VERY LIKELY TO BE ADOPTED AT THE JULY TNC. THEY SUGGEST THAT DC EFFORTS BE AIMED AT CAREFULLY TAILORING THE TERMS OF REFERENCE FOR THIS GROUP. THE TERMS OF REFERENCE COULD BE DRAFTED IN THE G-18.

3. WE SEE A VERY SUBSTANTIAL DANGER IN CREATION OF AN MTN REFORM GROUP FOR BRAZIL'S PURPOSES, AND ARE NOT AT ALL CONVINCED THAT IT WOULD BE WISE TO CREATE THE GROUP NOW EVEN WERE IT AGREED THAT THE GROUP WOULD BE DORMANT FOR THE TIME BEING, AS LONG HAS SUGGESTED- A REFORM GROUP OF THIS KIND COULD PROVIDE AN LDC VETO OVER SOLUTIONS WORKED OUT IN OTHER GROUPS AND/OR PERMIT THE LDCS TO HOLD THE MTN HOSTAGE TO THE ACHIEVEMENT OF THEIR MORE EXTREME PROPOSALS FOR RE-STRUCTURING THE TRADING SYSTEM. ALSO MAY COMPLICATE ACHIEVING 1977 COMPLETION DATE. WE APPRECIATE INDICATIONS AT LAST SEVEN-PLUS-SEVEN MEETING THAT OTHER DEVELOPED MTN DELEGATIONS GENERALLY SHARED OUR RESERVATIONS ABOUT THE BRAZILIAN PROPOSAL. HOWEVER, UNLESS A SATISFACTORY ALTERNATIVE IS FOUND WE WILL FACE STRONG LDC PRESSURE FOR SUCH A GROUP IN SPITE OF THIS OPPOSITION AND WE CANNOT COUNT ON EFFECTIVE EC AND JAPANESE RESISTANCE.

4. IN CONSIDERING THE OPTIONS PRESENTED BELOW, WE ARE GUIDED ALSO BY OUR CONCERN THAT THE CHANCES FOR SUCCESS IN OBTAINING USG GATT REFORM OBJECTIVES NOT BE SIDETRACKED OR DERAILED PERMANENTLY BY BRAZILIAN PROPOSAL FOR MTN GROUP. THIS COULD OCCUR IF GATT REFORM BECOMES STATED IN NORTH/SOUTH CONFRONTATION.

5. WE SEE ESSENTIALLY TWO OPTIONS. FIRST, TO ACCEPT THE INEVITABILITY OF A REFORM GROUP IN THE MTN BUT TO WORK FOR TERMS OF REFERENCE WHICH PROMOTE OUR GATT REFORM OBJECTIVES. A SECOND OPTION, WHICH WE PREFER TO CONTINUE FOR THE PRESENT, IS TO TREAT FRAMEWORK IMPROVEMENT NOW IN THE MTN IN THE CONTEXT OF WORK ON SPECIFIC ISSUES UNDER NEGOTIATION WHILE DEALING WITH THE CONFIDENTIAL

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LARGER, MORE GENERAL CONCEPT OF REFORM OF THE TRADING SYSTEM IN THE GATT, SPECIFICALLY THE G-18. HOWEVER, IN NO CASE ARE WE PREPARED TO ACCEPT THE POTENTIAL IMPLICATIONS FOR THE NEGOTIATIONS WHICH ARISE OUT OF A REFORM GROUP IN THE MTN WITH THE TERMS OF REFERENCE PROPOSED BY BRAZIL.

6. FOR MTN DEL AND MISSION GENEVA. UNLESS YOU PERCEIVE

STRONG OVERRIDING OBJECTIONS YOU SHOULD APPROACH THE BRAZILIAN DELEGATION (PREFERABLY MACIEL) AND TELL HIM THAT WE HAVE CONCLUDED THAT A SEPARATE REFORM GROUP NOW IN THE MTN IS NOT DESIRED BY USG FOR OUR OWN DESIDERATA. INDEED, WE BELIEVE THAT THE MOST PRODUCTIVE MEANS TO ARRIVE AT A SIGNIFICANT IMPROVEMENT OF THE TRADING SYSTEM THROUGH THE MTN IS TO DEAL WITH REFORM ISSUES AS THEY ARISE IN NEGOTIATIONS UNDERWAY ON SPECIFIC ISSUES. IN OUR VIEW THIS IS CLEARLY THE BEST MEANS FOR INCORPORATING INTO THE RESULTS OF THE MTN SPECIAL AND DIFFERENTIAL TREATMENT FOR DEVELOPING COUNTRIES. THE MORE THE QUESTION OF SPECIAL AND DIFFERENTIAL TREATMENT IS CONSIDERED IN THE MTN IN A SEPARATE REFORM GROUP, THE STRONGER DC RESISTANCE TO PROPOSALS FOR SUCH TREATMENT WILL BE. WE HAD UNDERSTOOD THAT THE DEVELOPING COUNTRIES THEMSELVES WERE AGAINST A STRUCTURE FOR THE NEGOTIATIONS WHICH TENDED TO SEPARATE OUT FROM THE SPECIFIC ISSUES THE ASPECT OF SPECIAL PROCEDURES AND DIFFERENTIAL TREATMENT, AND THEREFORE WERE NOT IN FAVOR OF A SEPARATE GROUP ON THIS ASPECT OF THE NEGOTIATIONS.

7. WE RECOGNIZE THAT THERE IS INTEREST IN ASPECTS OF IMPROVING THE FRAMEWORK OF THE INTERNATIONAL TRADING SYSTEM WHICH MAY NOT BE FULLY ADDRESSED IN THE MTN. WE SHARE THAT INTEREST BUT HAVE THOUGHT THAT THESE ASPECTS WOULD HAVE TO INVOLVE A CONTINUING PROCESS EXTENDING BEYOND THE MTN BOTH IN CONTENT AND IN TIME. YOU SHOULD INDICATE TO BRAZILIANS THAT COMPLETE REVIEW OF THE GATT RULES SHOULD BE IN LIGHT OF THE MTN. IN OUR VIEW, MTN SHOULD BE DIRECTED AT RESOLVING SOME OF THE MORE PRESSING REFORM ISSUES MORE SUITED TO THE KIND OF NEGOTIATIONS THE MTN ENTAILS. (INDEED, THIS VIEW OF  
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TIMING IS CONSISTENT WITH THE EXPLANATION OF THE BRAZILIAN NORTH-SOUTH NEGOTIATION PROPOSAL WHICH AMBASSADOR SOTO MAYOR PROVIDED TO US AT LAST OCTOBER'S MEETING AT BRASILIA OF THE US-BRAZILIAN CONSULTATIVE SUB-GROUP ON TRADE.) YOU MAY ARGUE THAT A FULL REVIEW GATT ARTICLES INCLUDING PART IV, TO BE EFFECTIVE FROM BRAZILIAN POINT OF VIEW, SHOULD NOT BE PART OF THE MTN, BUT PART OF A BROADER REVIEW OF THE TRADING SYSTEM WHICH SHOULD TAKE PLACE IN THE GATT. BECAUSE MTN IS JUDGED IN TERMS OF OVERALL RECIPROCITY, PART IV REVIEW IN THE MTN IS LIKELY TO RESULT IN FEWER SPECIFIC TRADE CONCESSIONS BEING OFFERED BY DC'S. IN ADDITION A REVIEW OF GATT RULES PER SE (I.E., NOT IN THE CONTEXT OF SPECIFIC CODES) INVOLVES THE OBLIGATIONS OF THE SIGNATORIES TO THE GENERAL AGREEMENT AND MANY OF THE MTN PARTICIPANTS WHO ARE NOT

GATT MEMBERS COULD NOT APPROPRIATELY PARTICIPATE IN SUCH A REVIEW.

8. YOU MAY WISH TO NOTE FURTHER THAT, ALTHOUGH WE HAD THOUGHT THAT THIS PROCESS OF COMPLETE REVIEW OF THE GATT WOULD BEST TAKE PLACE ONCE THE IMPLICATIONS OF THE MTN FOR THE GENERAL AGREEMENT WERE MORE CLEARLY DISCERNABLE, WE ARE PREPARED TO SET THAT PROCESS IN MOTION AT THIS TIME IF OTHERS SO WISH. WE BELIEVE IT WOULD BE MOST APPROPRIATE TO DO SO IN THE CONSULTATIVE GROUP OF 18, TAKING ADVANTAGE OF THAT GROUP'S CAPABILITY

TO CLARIFY THE IMPORTANT REFORM ISSUES AT A POLICY LEVEL. FURTHER, WE WOULD BE PREPARED TO SUPPORT AN INITIATIVE (WHICH COULD BE TAKEN BY THE BRAZILIANS) THAT A POLICY LEVEL GROUP BE SET UP UNDER THE G-18 TO EXAMINE THE SPECIFIC AREAS OF REFORM OF THE TRADING SYSTEM AND THEIR IMPLICATIONS FOR THE PROVISIONS OF THE GENERAL AGREEMENT AS WELL AS THE STRUCTURE AND PROCEDURES OF THE GATT. SUCH AN EXAMINATION IN THE GATT WOULD NOT LESSEN OUR INTEREST IN NEGOTIATING SPECIAL AND DIFFERENTIAL TREATMENT IN THE CONTEXT OF SPECIFIC ISSUES UNDER NEGOTIATION IN THE MTN. INDEED, WE BELIEVE IT WOULD STRENGTHEN IT. NOR WOULD IT PRECLUDE THE POSSIBILITY OF TAKING UP OTHER REFORM ISSUES IN THE MTN IF IT WERE FOUND THAT IT WOULD BE APPROPRIATE AND CONFIDENTIAL

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TIMELY TO DO SO.

9. AMBASSADOR YEUTTER AND DEPUTY ASSISTANT SECRETARY GLITMAN WILL PURSUE THIS MATTER FURTHER WITH MACIEL IN GENEVA ON MONDAY, FEBRUARY 23 PRIOR TO THE G-18 MEETING. THE MISSION SHOULD ARRANGE AN APPOINTMENT WITH MACIEL MONDAY AFTERNOON TO BE FOLLOWED BY APPOINTMENTS WITH OTHER KEY DELEGATIONS, INCLUDING THOSE OF THE EC, CANADA, JAPAN AND ARGENTINA. IN LIGHT OF TIMING DIFFICULTIES, THERE SHOULD BE JOINT MEETING WITH DELS FROM EC, CANADA, AND JAPAN.

10. FOR MISSION EC. YOU SHOULD ADVISE THE EC OF OUR CONCERN THAT FAILURE TO MEET THE CHALLENGE PROVIDED BY THE BRAZILIAN PROPOSAL WELL IN ADVANCE OF THE NEXT TNC MEETING WILL LOCK THE BRAZILIANS INTO A POSITION FROM WHICH THEY WILL FIND IT INCREASINGLY DIFFICULT TO RETREAT. GATT DG LONG IS OF THE VIEW THAT BRAZIL WITH SUPPORT FROM OTHER LDCS IS ALREADY LOCKED INTO SUCH A POSITION AND THAT FORMATION OF AN MTN REFORM GROUP AT THE JULY TNC IS INEVITABLE. THUS, AN UNCOMPROMISING NEGATIVE REACTION TO THE BRAZILIANS SEEMS

LIKELY TO PROMPT EVEN MORE EXTREME RHETORIC AND PROPOSALS FROM THE G-77 IN GATT, MTN, OR OTHER FORA (E.G. UNCTAD IV). WE HAVE, THEREFORE, TENTATIVELY DECIDED TO SUPPORT ESTABLISHMENT OF A GROUP WITH THE GATT UNDER THE GROUP OF 18 AS A MEANS TO DIRECT THE BRAZILIAN PROPOSAL INTO A LESS DANGEROUS PATH WHERE THE RISK OF DISRUPTION OF THE MTN CAN BE BETTER MANAGED. WE HAVE CONCLUDED SINCE OUR BILATERAL DISCUSSION IN BRUSSELS ON JANUARY 22 THAT THE CTD WILL NOT ADEQUATELY SERVE THIS PURPOSE AND WILL NOT BE ACCEPTABLE TO BRAZIL. MOREOVER, YOU SHOULD UNDERLINE OUR OWN DECISION NOT TO SEEK A SEPARATE REFORM GROUP AT THIS TIME FOR OUR OWN NEEDS IN THE MTN. WE WILL WANT TO DISCUSS THIS ISSUE WITH THE EC REPRESENTATIVE TO THE G-18 ON MONDAY, FEBRUARY 23 AND IN THE INTERIM WOULD APPRECIATE THE EC'S VIEWS ON HOW WE MIGHT JOINTLY RESPOND TO THE BRAZILIAN PROPOSAL. KISSINGER

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